



NEWS RELEASE

GOVERNOR'S COMMUNICATIONS OFFICE

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STATEMENT FROM GOVERNOR PHIL BREDESEN

REGARDING TENNESSEE'S UPGRADED BOND RATING FROM STANDARD & POOR

"We've worked very hard for four years to get our state's budget under control and to improve the operation of state government," said Governor Phil Bredesen. "Earning this upgrade from Standard & Poor's is like receiving the Good Housekeeping Seal of Approval. We are doing the right things in Tennessee and I am committed to continuing our progress."

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RESEARCH

Tennessee's Improving Finances, TennCare Reforms Elevate GO Debt Rating To 'AA+'

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DALLAS (Standard & Poor's) Oct. 12, 2006--Standard & Poor's Ratings Services raised its standard long-term rating and underlying rating (SPUR) on Tennessee's GO debt one notch to 'AA+' from 'AA' based on the state's continually improving financial position.

Improving finances are supported by structural budgetary stability, which was brought on by reforms to TennCare, the state's Medicaid program; continued reserve growth, including the forecast of a record high \$497 million rainy day fund by fiscal year-end 2007; and Tennessee's stable overall economy.

Additional factors that support the rating include the state's recent history of structurally balanced budgets; retirement system that has a funding ratio of more than 99.8%; and low debt burden, coupled with the moderate issuance of additional debt.

The state's potential financial vulnerability during economic cycles in the future due to its reliance on sales tax revenues for about 64% of total tax revenues constrains the rating.

"We believe the cost-containment measures implemented by state officials to TennCare will, along with overall economic stability, help Tennessee maintain its structural budgetary stability and reserves that are in-line with management's forecasts," said Standard & Poor's credit analyst Ted Chapman. "Although Tennessee officials will still face challenges funding TennCare, we think the program's benefit limitations and ability to now disenroll beneficiaries will provide a more measured rate of expenditure increases."

Fiscal 2006 marked the first full fiscal year in which Gov. Phil Bredesen could fully implement his long-fought-for benefit and enrollee cuts. Total TennCare program expenditures nearly doubled from fiscal 2000-2005 to \$8.700 billion; the enacted fiscal 2007 budget appropriated \$7.455 billion for TennCare. In fiscal 2003, the state raised its sales and use tax by 1% to help address severe budgetary stress and structural financial imbalance. Each year since then, officials have posted operating surpluses, as well as increases to revenue fluctuation reserves. Management budgeted for reserves of \$497 million by fiscal year-end 2007, which would be in-line with statutory requirements that call for the maintenance of the rainy day fund at a minimum of 5% of state tax revenues.

Economic growth has been incremental, but positive, since Sept. 11, 2001, and throughout the state's fiscal crisis. From a peak of 1.6% in 2004 to 1.2% in 2006, job growth has remained steady.

State officials intend to issue \$125 million of additional GO debt in November 2006.

The rating action affects roughly \$1.08 billion of GO debt outstanding.

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